LFD ANALYSIS
SPENDING REDUCTIONS PROPOSAL
FISCAL 2003

Part 1 – Overview

A Report Prepared for the

Legislative Finance Committee

and the

Revenue and Transportation Committee

By the

Legislative Fiscal Division

June 7, 2002

Legislative Fiscal Division

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June 7, 2002

Members of the Legislative Finance and Revenue and Transportation Committees:

The legislature has provided a statutory requirement that the executive take action to reduce spending in the event of a general fund budget deficit. The executive announced a budget deficit on May 24, 2002, and submitted a spending reduction plan to bring the projected ending fund balance to the minimum required by 17-7-140, MCA.

In accordance with 17-7-140, MCA, I submit the Legislative Fiscal Division analysis of the executive spending reduction plan. It is our goal that this analysis will provide the information necessary for your committees and legislators to provide an informed input to the current budget crisis. This three-part report includes:

- Part 1: This part provides an overview of the current budget shortfall, including the statutory requirements for dealing with a deficit, the executive projected general fund deficit, the legislative staff projections, reasons for the declining balance, the executive proposed spending reduction plan, and a 2005 biennium outlook.
- Part 2: This part provides the revenue estimates of the executive and LFD, the underlying economic assumptions, and an explanation of the differences between the executive and legislative estimates. It is intended as a working document for the Revenue and Transportation Committee in providing a response to the executive projections.
- Part 3: This part provides the Budget Director’s agency spending reduction recommendations in detail along with the Legislative Fiscal Division’s analysis and comments on the various components of the executive plan. It is intended as a working document for the Legislative Finance Committee in providing recommendations to the executive regarding the spending reduction plan.

Your staff of the Legislative Fiscal Division look forward to being of service to the committees and the legislature during this process of implementing the requirements of 17-7-140, MCA. Please feel free to call on us to assist in your deliberations.

Respectfully submitted,

Clayton Schenck
Legislative Fiscal Analyst

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INTRODUCTION

EXECUTIVE SUMMARY

17-7-140, MCA

The Governor is required by statute to implement spending reductions in the event of a deficit in the general fund ending fund balance projection, and must direct sufficient reductions to achieve a required minimum ending fund balance. The Governor's Budget Director submitted a spending reduction plan in late May, and designated legislative committees are statutorily allowed 20 days to provide comments and recommendations on the proposed plan to the Governor. The Governor can then implement the reduction plan. The Legislative Finance Committee will meet on June 13, 2002 to evaluate and comment on the executive proposed spending reductions. The Revenue and Transportation Committee will meet on June 14 to comment on the executive revenue estimates used to certify a deficit. The Governor tentatively plans to implement the spending reduction plan on about June 21, after taking into consideration the comments and recommendations of the legislative committees.

Budget Shortfall

General fund revenues came in stronger than anticipated in fiscal 2001, and were on track with revenue estimates for the first half of fiscal 2002. Since November 2001, general fund revenues have experienced a sharp downward trend, with a dramatic decline in the largest revenue component, income taxes. The 2001 legislature had adopted a budget with a projected 2003 biennium ending fund balance of $54 million, and that projected balance grew to $116 million when actual fiscal 2001 figures were in. With the dramatic decline in revenue collections, the Governor's Budget Director submitted a spending reduction plan on the basis of a projected fund balance of a negative $5.3 million before implementing the plan. This fund balance compared to a projected general fund balance by the Legislative Fiscal Division (LFD) of a negative $18.6 million. Differences in the projections were due to slightly less optimistic revenue estimates by the LFD, inclusion in the LFD projection of a supplemental allowance of just over $7 million for the fiscal 2003 wildfire suppression season, and lower reversion estimates.

The decline in general fund balances can be attributed to an economic recession, the terrorist acts of September 11, 2001, and a severe drop-off in capital gains tax revenue. This decline in general fund revenues below projections has occurred in nearly all states, and 47 states have had to take action to balance their budgets. Montana's impact is actually mild compared to most states.

Executive Spending Reduction Plan

The executive spending reduction plan proposes $30.9 million in budget balancers including $23.4 million of agency reductions and $6.2 million of transfers. These measures would improve the projected fiscal 2003 ending fund balance from a negative $5.3 million to $25.2 million. The Budget Director indicated that the final adopted plan would include additional budget balancers as needed to get to a minimum required ending fund balance of $27.1 million.

If the $30.9 million of budget balancers are applied to the LFD projected ending fund balance of a negative $18.3 million, the revised ending fund balance would be $11.8 million, over $13 million short of the statutory minimum ending fund balance. Therefore, the plan would not achieve the requirements of 17-7-140, MCA when using LFD projections.

The executive plan, when applying the executive's own revenue estimates and other assumptions, provides a viable framework for addressing the shortfall, and is based on reasonable estimates of the economy. But the plan is vulnerable in that it only provides the minimum budget balancers necessary to get just below the required minimum ending fund balance, leaving no margin for deterioration of a volatile economic picture, assumes legislative endorsement of some items in the next session, and leaves no provision for highly probable wildfire costs in fiscal 2003 or any other supplementals. Some potential cost shifts and loss of income are a risk in human services budget balancers. If actual events mirror the LFD projections, the vulnerability of the plan is clear. The possible need for another round of reductions if the plan is adopted as proposed is significant.

Spending reductions in the plan average 3.5 percent for state agencies, with reductions of $9.6 million in human services (41 percent of total) and $5.1 in higher education (22 percent of total). Federal funds would be reduced by nearly $14 million due to the loss of match funds. Direct services reductions total $10.6 million, and $7.7 million of budget balancers would take legislative action to complete. The reductions include reductions in services and grants, delay of new programs, fund shifts, revenue enhancements, and some unspecified reductions.

Legislative Options

The consequences of implementation of the executive plan can have a significant impact on legislative budget policy and priorities. The alternative is for the legislature to step in and take action, if there is a feeling that the policies and priorities in the executive plan are unacceptable, or if legislative action is necessary to preserve legislative policy and priorities.

In evaluating the executive plan, the committees should consider:

- Does the plan work?
- Are policy choices in the executive plan consistent with legislative priorities and intent?
- How effectively does the plan address Montana's underlying budget problem?

If the legislature were to intervene, it would almost certainly require a special session. Among the options the legislature could consider in addressing the shortfall would be program eliminations, spending suspension or deferrals, fund shifts, program efficiencies, increase fees or taxes, deferring tax incentives, fund balance transfers, and improving tax collections (audits).

2005 Biennium Outlook

The LFD has made an issue in a series of reports that the state budget has a serious long-term structural imbalance. The decline in the revenue base further exacerbates the structural imbalance, going from an estimated $57 million when the budget was adopted by the 2001 legislature, to nearly $200 million with the recent base decline. The 2003 legislature will likely have to deal with a significant budget shortfall.

The legislature may want to evaluate options for improved budget management tools to avoid crisis budget management in the future. These tools would include:

- Assessment of an appropriate general fund reserve
- Attention to general fund structural imbalance
- Establishment of a rainy day fund

PURPOSE OF REPORT

17-7-140, MCA, provides a procedure to be implemented by the Governor in the event of a general fund budget deficit. In the event of a budget deficit, the Governor is required to reduce spending in an amount sufficient to bring the projected ending fund balance for the year to at least 1 percent of all general fund appropriations for the biennium. On April 18, 2002, the Governor's Budget Director initiated preliminary action to implement spending reductions by requiring agencies to submit proposals for reductions. On May 24, as required by statute, the Budget Director issued a list of budget reduction recommendations both to the Governor and the Legislative Fiscal Analyst. The executive is required to allow the Legislative Finance Committee 20 days to provide a response regarding the proposed reductions before the Governor directs the reductions.

The purpose of this report is to provide the Legislative Finance Committee an independent analysis and summary of the proposed executive spending reduction plan, as required by 17-7-140, MCA. Part 1 of the report includes an overview of the state fiscal situation and a summary of the executive response. It also discusses options the legislature may have to respond to this situation, and provides a broadbrush overview of the fiscal outlook for the 2005 biennium. Part 2 of the report provides a summary of the general fund revenue estimates as projected by the executive and by your LFD staff. Part 3 provides a complete listing and description of the executive spending reduction plan by agency, as well as LFD staff analysis, comments, and alternatives to the spending plan.

As mentioned throughout this report, there are a number of dynamic economic conditions that may change the final outcome of revenue and budget projections for the 2003 biennium. Of primary concern is the uncertainty of income tax collections, which have shown a significant downward trend. This report will be updated as needed should revenue projections or proposed spending reductions change significantly prior to the Legislative Finance Committee meeting.

17-7-140, MCA

BUDGET DEFICIT UNDER 17-7-140, MCA

The authority to appropriate state funds rests solely with the Montana legislature in accordance with the state constitution. That authority cannot be delegated. However, since the legislature only meets regularly in session for 90 days in a two-year period, the legislature adopted a law to ensure that there is a method to prevent the occurrence of a budget deficit. In the 1993 legislative session, the legislature passed 17-7-140, requiring the Governor to initiate spending reductions if there is a projected budget shortfall that threatens a deficit budget picture.

On April 18 the Governor's Office formally announced concerns about a budget deficit, and initiated proceedings to implement spending reductions in accordance with 17-7-140. The following describes the statutory requirements, projected deficit, reasons for the declining fund balances, and factors that may affect the projected deficits during fiscal 2003.

Statutory Requirements/Explanation

The requirements, limitations, legislative role, and implementation procedures are described below. The full text of 17-7-140, MCA (Reductions in Spending) is provided in Appendix A of this report.

Requirements

In the event of a budget deficit, defined in 17-7-140, MCA as "an amount by which the projected ending general fund balance for the biennium is less than 2 percent of the general fund appropriations for the second fiscal year of the biennium", the Governor is required to reduce spending in an amount "sufficient to bring the projected ending fund balance for the year to at least 1 percent of all general fund appropriations for the current biennium". For fiscal 2003, the budget deficit "trigger" is $26.6 million, and the target level to restore the projected ending balance is $27.1 million. The determination of the budget deficit projection, the revenue estimates, and the spending reductions lies entirely with the Governor, with the limitations and legislative input as described in the following two sections.

Limitations

The spending reduction statute (17-7-140, MCA) requires that general fund spending be reduced in order to ensure a minimum ending fund balance reserve, but provides a number of statutory limitations as to what reductions are allowed. The major limitations to the reductions the Governor can make are as follows:

- An agency cannot be required to reduce spending in any program (as defined in HB2) by more than 10 percent during a biennium.
- Agencies headed by elected officials or the Board of Regents cannot be required to reduce spending by a percentage greater than that required of the total of all other executive branch agencies.
- No reductions can be taken in the following categories:
    - Payment of interest and principal and state debt
    - Legislative and Judicial Branch budgets
    - The school BASE funding program, including special education
    - Salaries of elected officials

For fiscal 2003, the above limitations exclude. Significant state general fund expenditures, most notably the K-12 BASE aid and special education program totaling almost $500 million. Statutory law for certain general fund appropriations further reduce the amount available for reduction.

Legislative Role

The final assessment of the deficit projection and the required spending reductions are determined by the Governor, but statute requires specific communication with the Legislative Branch and an opportunity for legislative input prior to making the final directive. The Legislative Finance Committee must be afforded the opportunity to comment on planned spending reductions and the Revenue and Transportation Committee must be afforded the opportunity to comment on the revenue estimates used to determine the deficit. The statutory requirement for legislative interaction and input is summarized as follows:

- Agencies must submit their assessment of spending reductions to the Legislative Fiscal Analyst (LFA) at the same time they are submitted to the Office of Budget and Program Planning (this submission occurred on May 10).
- The Governor's Budget Director shall provide a copy of his recommendations to the LFA at the same time they are submitted to the Governor (this occurred on May 24).
- The Legislative Finance Committee has 20 days from the time the planned reductions are submitted to the LFA to meet and make recommendations to the Governor (scheduled for June 13).
- The LFA must provide a copy of his review of the proposed spending reductions to the budget director at least 5 days before the LFC meeting (scheduled for delivery on June 7).
- The Governor's Budget Director must notify the Revenue and Transportation Committee of the estimated amount of the general fund revenue shortfall below the revenue estimate established in the revenue estimating resolution for the affected biennium (this occurred May 24).
- The Revenue and Transportation Committee (RTC) has 20 days from notification of the revenue shortfall to provide the Budget Director with any recommendations concerning the revenue estimates (scheduled for June 14).
- The budget director must consider the recommendations of the RTC prior to certifying a projected general fund deficit.
- The Governor must consider the recommendations of the LFC prior to directing spending reductions.

Implementation

As discussed above, the actual certification of a budget shortfall and the implementation of spending reductions cannot occur until after the opportunity is afforded for legislative input from the prescribed interim committees. This means the reductions cannot occur until after June 14 when the committees have concluded their assessment. Since the spending reductions are for fiscal 2003, which begins on July 1, 2002, it is anticipated the certification and directive will be made prior to that date. The Governor's Budget Director has estimated that the action will be taken on about June 21, after allowing about one week to consider legislative recommendations and final assessment of the revenue shortfall.

Prior Executive Budget Reductions Under Statute

The existing spending reduction statute was adopted by the 1993 legislature, and has never been implemented prior to the existing situation. A prior law was very similar, but it allowed the Governor to reduce actual legislative appropriations. Governor Stephens issued Executive Order 28/91 in September, 1991 directing $31.4 million in budget reductions for the fiscal 1992 budget. Reductions ranged from 0 percent for some agencies to as much as 17 percent. The primary budget balancers in 1992 were reductions in agency operations (46 percent), increased revenue estimates (19 percent), and caseload decreases in human services (16 percent). Less than one-fourth of the budget balancers were ongoing reductions. The most recent executive ordered reductions prior to fiscal 1992 were in February and November 1986. The fiscal 1992 Executive Order was determined to be unconstitutional due to an inappropriate delegation of appropriation authority to the executive branch. This resulted in the revised statute in 1993, with the primary distinction of allowing a reduction in spending, but not reducing actual appropriations.

BUDGET SHORTFALL

PROJECTED GENERAL FUND DEFICIT

For the first several months following the 2001 legislative session, state general fund revenues came in even stronger than projected in the revenue estimate resolution for fiscal 2001, and then held steady in early fiscal 2002. In November 2001, the Legislative Fiscal Division reported a significant downturn in general fund revenues and a concern that if the trend continued, the projected ending fund balance would be significantly less than anticipated. The trend continued to worsen, and in April the LFD reported that a preliminary estimate of the biennium ending general fund balance was $28 million. This placed the projected balance near the trigger point for implementing spending reductions, and in subsequent communications, this office and the Office of Budget and Program Planning expressed concerns about a worsening picture. Individual and corporation income tax collections were the primary reason for the need to implement spending reductions. These two sources are projected to be $101.1 million below HJR 2 revenue estimations, or 88 percent of the total projected reductions in general fund revenues.

This section provides an overview of the projected general fund balance at the end of the 2003 biennium as projected by the legislature in the 2001 session, the executive projection included in their spending reduction plan submitted in May, and the LFD projection. The revised revenue projections from the Office of Budget and Program Planning and the LFD are explained in more detail in Part 2 of this report, along with an explanation of differences.

Legislative Projection, 2001 Session

As shown in Figure 1, the 57th Legislature projected a general fund ending fund balance of $53.8 million on June 30, 2003, which is a reserve of 2.3 percent of general fund appropriations for the biennium. Those projections assumed an average growth in general fund revenues. They assumed a less robust growth pattern than immediate past biennia, but still a consistent growth. Stronger than anticipated revenues at the end of fiscal 2001 signaled an even brighter picture, with an increased fund balance of $62.2 million, leaving a projected balance on June 30, 2003 of $116.5 million. However, as Figure 2 shows, in a comparison of legislative projections to the revised OBPP and LFD projections, there have been a number of predominantly negative impacts on the general fund balance that have sharply reduced the projected fiscal 2003 ending balance.

Figure 1
Comparison of 2003 Biennium General Fund Balance
Post-Session Budget vs. June Revised Budget
In Millions

	Post Session 2003 Biennium	Revised June 2003 Biennium	Difference 2003 Biennium
Beginning Fund Balance	**$110.729**	**$172.897**	**$62.168**
Revenues			
Current Law Revenue	2,677.566	2,562.963	(114.603)
Total Funds Available	**$2,788.295**	**$2,735.860**	**($52.435)**
Disbursements			
General Appropriations	2,274.123	2,274.123	
Statutory Appropriations	92.195	275.790	183.595
Local Assistance Appropriations	326.739		(326.739)
Miscellaneous Appropriations	8.483	160.910	152.427
Non-Budgeted Transfers	31.930	37.522	5.592
Continuing Appropriations		2.611	2.611
Supplemental Appropriations		13.100	13.100
Feed Bill Appropriations	7.028	7.028	
Anticipated Reversions	(6.027)	(14.269)	(8.242)
Total Disbursements	**$2,734.471**	**$2,756.815**	**$22.344**
Adjustments		2.324	2.324
Reserved Ending Fund Balance	**$53.824**	**($18.631)**	**($72.455)**
Unreserved Ending Fund Balance	**$53.824**	**($18.631)**	**($72.455)**

New Information Since Adjournment			
Shell Oil Audit Settlement	12.841		(12.841)
Potential Ending Fund Balance	**$66.665**	**($18.631)**	**($85.296)**

Executive Projection

The Governor's Budget Director submitted a spending reduction plan on May 24 that assumed an ending general fund balance projection of a negative $2.3 million prior to implementing spending reductions and fund transfers. In a revised plan based on new information and revised projections, the Budget Director projected a negative general fund balance of $5.3 million (Figure 2, column 1). The estimates project a significant downturn in individual income taxes, corporation income taxes, investment earnings, and motor vehicle revenues, in addition to a significant impact of the federal economic stimulus act.

The projections leave a shortfall of $32.4 million from the minimum ending balance required by 17-7-140, MCA, and the executive plan includes spending reductions and budget transfers that would bring the projected balance to $25.2 million. This still leaves a shortfall of $2.1 million from the minimum required ending fund balance of $27.1 million. The Budget Director has not identified specific budget balancers to fill the remaining shortfall, but stated that the final plan would achieve the minimum required balance. The executive plan proposed budget balancers and the target ending fund balance as shown in the bottom box of Figure 2 are discussed in more detail in the section "Executive Proposed Reduction Plan" on page 17.

Figure 2
Comparison of 2003 Biennium General Fund Balance
Executive Budget vs. LFD Budget
In Millions

	Executive 2003 Biennium	LFD 2003 Biennium	Difference 2003 Biennium
Beginning Fund Balance	**$172.850**	**$172.897**	**$0.047**
Revenues			
Current Law Revenue	2,567.530	2,562.963	(4.567)
Total Funds Available	**$2,740.380**	**$2,735.860**	**($4.520)**
Disbursements			
General Appropriations	2,272.550	2,274.123	1.573
Statutory Appropriations	275.230	275.790	0.560
Local Assistance Appropriations			
Miscellaneous Appropriations	162.840	160.910	(1.930)
Non-Budgeted Transfers	37.590	37.522	(0.068)
Continuing Appropriations	2.290	2.611	0.321
Supplemental Appropriations	5.830	13.100	7.270
Feed Bill Appropriations	7.200	7.028	(0.172)
Anticipated Reversions	(15.540)	(14.269)	1.271
Total Disbursements	**$2,747.990**	**$2,756.815**	**$8.825**
Adjustments	2.320	2.324	0.004
Projected Ending Fund Balance	**($5.290)**	**($18.631)**	**($13.341)**
Executive Proposals to Reduce Deficit			
DOR Residual Equity Transfer	0.400	0.400	
Eliminate DOT Transfer	5.790	5.790	
Agency Reductions (including Judiciary)	23.400	23.400	
Lynch Settlement	0.500	0.500	
Legislative Branch Reductions	0.350	0.350	
Potential Ending Fund Balance	**$25.150**	**$11.809**	**($13.341)**
Calculated Target Ending Fund Balance	27.280	27.134	(0.146)
Projected Budget Gap	**($2.130)**	**($15.325)**	**($13.195)**

LFD Projection/Differences from Executive Plan

The revised LFD projected general fund deficit prior to implementation of any spending reductions is a negative $18.6 million. This compares to the Budget Director's projection of a negative $5.3 million. A comparison of the two projections and the difference of $13.3 million is shown in Figure 2. The three primary differences between the two are highlighted in Figure 3 and are explained below. The "All Other" category in Figure 3 is a net of all other balance sheet categories, and differences are primarily due to different categorization between the two projections. A detailed LFD balance sheet is in Appendix B.

Figure 3
Comparison of Major General Fund Differences
Executive Budget vs. LFD Budget
In Millions

	2003 Biennium
Revenue Estimates	($4.567)
Supplemental Appropriations	(7.270)
Anticipated Reversions	(1.271)
All Other	(0.233)
Total Difference	**($13.341)**

Revenue Estimates

The difference between the executive and the LFD general fund revenue estimates for the 2003 biennium are $4.8 million, or only 0.18 percent of total general fund revenues, projected by the LFD to be $2.6 billion for the 2003 biennium.

In general, both the executive and the LFD independently examined each revenue source in detail. Fiscal 2002 year-to-date collection trends were reviewed as well as relevant economic conditions.

Figure 4 shows the primary differences between the two estimates by revenue component. Most of the categories listed in Figure 4 could be significantly influenced by collections received in June and revenue accruals processed during the fiscal year-end closeout period. For example, estimated tax payments are due June 15^{th} for both individual and corporation income taxes. These payments will not only impact final collections for fiscal 2002 but will also affect the outlook for fiscal 2003.

It should be noted that the primary difference in the "All Other Revenue" category is because the LFD included estimated wildfire suppression costs in the fiscal 2003 expenditure base. Because of this inclusion, it is expected that the general fund will receive approximately $1.9 million in federal reimbursement revenue. Most of the other differences for the other categories are due to different views of current trends and how these trends will influence fiscal 2003.

Figure 4
2003 Biennium Revenue Estimate Differences
Executive vs. LFD

Revenue Category	Millions
Individual Income Tax	$2.262
Corporation Income Tax	(4.184)
Vehicle Tax	3.629
Insurance Tax & License Fees	(2.254)
US Mineral Royalty	3.347
All Other Revenue	(1.140)
Estate Tax	1.448
Oil & Natural Gas Production Tax	1.877
Public Institution Reimbursements	(1.164)
Remaining Categories	0.996
Total Difference	**$4.817**

Supplemental Appropriations

As shown in Figure 3, the LFD estimates are $7.3 million higher for supplemental appropriations, which is entirely due to the inclusion of an estimate in fiscal 2003 for wildfire suppression costs. The executive plan does not include an estimate for wildfire suppression costs for the 2002 summer fire season (fiscal 2003). The estimate of $7.3 million is an average annual fire suppression cost, which is a conservative estimate in view of the 4th year drought conditions the state is experiencing. Since this is a highly probable cost that will occur in fiscal 2003 and is unbudgeted, it is included to highlight that if not included in the expenditure reduction plan, the final ending fund balance projected by the executive can be expected to be $5.4 million less (net of $1.9 million federal reimbursement revenue), and therefore below the minimum required target by the same amount.

Anticipated Reversions

Anticipated reversions have been adjusted to reflect a lower expected reversion due to a tight budget situation and the spending reductions assessed to agencies. The LFD projection anticipates a lower reversion than the executive plan, a difference of $1.3 million.

REASONS FOR DECLINING GENERAL FUND BALANCES

The revenue stream for the state has undergone a dramatic change in the past eight months. In general terms, the revenue downturn can be attributed to a dramatic decline in net capital gains income due to the prolonged decline in the equity markets. Additional factors are an economic slowdown that slipped into an economic recession because of the September 11 terrorist attacks, and the economic stimulus act passed by Congress.

In more detailed terms, the causes of the revenue drop-off are not totally clear. The primary revenue component impacted by an economic slowdown and reduced net capital gains income is individual income tax, which comprises about 44 percent of all general fund revenue. Reduced individual and corporate income tax collections comprise 88.1 percent of the total revenue shortfall. They are down 7.4 percent from last year, and the overall impact is still unclear since final estimated payments are due June 15th. The most dramatic decline occurred in April. It will not be possible to pinpoint specific causes until much later this calendar year when all returns have been processed and analyzed. Reduced net capital gains and investment income are obvious explanations, but the relative contribution to the shortfall is still unclear.

The decline in general fund revenues below projections is not unique to Montana – 47 other states have had to take action to balance their budgets due to declining revenues. Montana was one of the more mildly affected in the wake of terrorist attacks and an economic recession. The primary factors contributing to the shortfall are discussed below, along with a comparison to other states.

Capital Gains

Capital gains income represents the net income from the sale of assets such as land and equities. Over a several year period, equity values have risen dramatically, and the state has seen net capital gains income become a significant portion of individual income tax revenues. Since these revenues have been gradually built into the state revenue base, a corresponding increase in the expenditure base has occurred. With the decline in the equity markets, however, there has been a dramatic decline in net capital gains income which results in a reduced individual income tax base. And what makes the problem worse is that even with an improved economy, the net capital gains income base is likely to be reduced to a new "benchmark" amount. Since this equates to a reduced tax base, the state will have to find ways to replace those revenues or reduce state services.

Federal Initiatives – Economic Recovery Stimulus Act

An external impact on state revenues that is a by-product of the economic recession and September 11 terrorist acts is the passage of the economic stimulus act by Congress. It is estimated by the Department of Revenue that this act will reduce revenues by over $16 million in the 2003 biennium. This act provides for accelerated depreciation of business equipment purchases as an incentive to buy new equipment. Because Montana tax code automatically adjusts for changes in federal tax laws, state individual and corporate income tax revenues will decline. Several states have enacted legislation to de-couple from the accelerated depreciation impact as part of their solutions to budget shortfalls.

Recession

The country entered an economic slowdown in March 2001 that was exacerbated by the terrorist attacks of September 11. Several economic assumptions adopted by the 57th Legislature showed progressive weakening, particularly in the latter part of fiscal 2002. As an example, the federal discount rate went from 6.0 percent in February 2001 to less than 1.0 percent in early 2002. The Standard and Poore's stock index has experienced an over 25 percent decline. Several of the state's major industrial facilities have faced a variety of challenges including energy prices and regulation, and several have faced bankruptcy or temporary shutdowns. Montana generally survived the recession with minimal impact, yet it has taken a toll on state revenues. Wage growth appears to remain moderate but net capital gains and investment income are presumed to be declining. And while the U.S. recession is officially over, the impacts are just being felt in state revenue collections due to the time lag between the impacts of economic changes and when tax revenues are actually received.

Comparison with other States

Although there is a brightening of the overall economic picture, states are struggling with large budget deficits. Only three states are reporting collections that are at or above official state revenue forecasts. All other states are below budgeted targets and have had to address a budget shortfall, including a dozen states where tax collections are below official forecasts by over 10 percent. In April in particular, states collected over 20 percent less in income tax revenues during the year's most important month of collections, as compared to last year. Estimated tax payments, which are an indicator of anticipated receipts in the year ahead, are running over 25 percent behind in the first four months of 2001 (Montana's were down by 14 percent). Further, individual income tax refunds in the first four months of 2002 are nearly 15 percent above 2001 refunds (Montana refunds are up 36 percent). The magnitude of the revenue shortfalls is somewhat puzzling in view of only a mild recession, and while a drop-off in net capital gains income is considered to be a major culprit, states will not be able to assess the precise causes until individual income tax returns can be analyzed. (The numbers used in the above comparison are from a report on income tax collections by the National Conference of State Legislatures and other organizations.)

Lower revenues are the major reason for state budget difficulties, but spending pressures are also contributing to the problem. Health care costs are growing at a double digit rate due to inflation, an aging population, and increasing prescription drug costs. Education and corrections budget demands continue to apply budget pressures. Even prior to dealing with a budget deficit, Montana was reducing services and associated costs in human services budgets just to stay within appropriated amounts.

FACTORS THAT MAY AFFECT PROJECTED DEFICITS

There are other issues with potential impacts in the 2003 biennium that are contingent upon other occurrences. These include the potential tax impact of the sale of Montana Power Company assets, the severity of the 2002 wildfire season (above LFD recommendations), potential general fund supplementals, and other economic events that could produce unanticipated changes in revenue projections. In the event that any of these become reality, there is a potential for impacts to the general fund balance. While these are not included in the fund balance projections, (except for wildfire costs in LFD projections) it is important that the potential impacts be considered in the legislative deliberations of fiscal status. Each item is discussed briefly below.

MPC Sale of Assets

The Montana Power Company has completed its divestiture of the company's multiple energy businesses, and has converted to a telecommunications business, Touch America. The divestiture was accomplished through a stock sale and not an outright asset sale. The tax impact of the divestiture is not yet clear, and it is unknown whether and to what degree the state will see increased tax revenues from the sale. The sale could potentially bring a one-time infusion of funds to the state general fund.

Wildfire Season/Drought

The executive spending reduction plan did not include a reserve for the costs of the 2002 summer fire season, even though wildfire season net costs to the state average over $5 million (net) a year. In view of the fact that the state is in the fourth year of drought conditions, experts are predicting a severe wildfire season. Since the likelihood of incurring at least an average $5 million net cost to the general fund in fiscal 2003 is very high, the LFD general fund estimate includes an allowance for wildfire costs. If an allowance for this high probability unbudgeted expenditure is not included in the spending reduction plan, the ending fund balance will be well below the projected amount in the executive plan should the costs occur.

Other Potential Supplementals

The executive spending reduction plan includes provisions for supplemental appropriations of $5.5 million for wildfire costs that have already occurred (2001 and Spring 2002) and $0.3 million for the Department of Justice (litigation costs and prisoner per diem). The executive does not anticipate any other supplemental requests for fiscal 2003 in the reduction plan. However, with intense spending pressures in the areas of human services and corrections, there is a potential that such supplementals will be unavoidable. In fact, the executive is expected to submit a request to the June LFC meeting for a $3.9 million appropriation transfer from fiscal 2003 to fiscal 2002. If the costs are not mitigated in fiscal 2003 and a supplemental appropriation is needed, it will increase the general fund deficit.

Revised Revenue Estimates

State revenue collections have continually worsened as compared to projections since November 2001. It remains unclear to what extent the downturn in collections seen in fiscal 2002 will continue into fiscal 2003. Both the executive and legislative staffs will continue to monitor revenue collections closely. Any unforeseen economic shifts, which could include terrorist acts, severe drought, or new federal tax legislation could result in revised revenue projections that could either improve or worsen the current outlook. And since the executive spending reduction plan contemplates only enough reductions in spending to get back to the statutorily minimum required ending fund balance reserve, any significant downturn could require either an additional round of reductions or a resolution by the legislature in the 2003 session.

EXECUTIVE PROPOSED REDUCTION PLAN

OVERVIEW

This section provides a summary evaluation of the executive spending reduction plan and whether it fulfills the statutory objective of achieving the minimum required target ending fund balance. It also provides a summary view of the budget balancers proposed in the executive plan, intended to provide the reader with a general understanding of the major components of the reduction plan. It includes agency expenditure reduction highlights and types of reductions, plus a discussion of some of the impacts of those reductions.

SUMMARY EVALUATION OF REDUCTION PLAN

The executive spending reduction plan is summarized in column 1, Figure 5. The plan projects a fiscal 2003 ending general fund balance before reductions of a negative $5.3 million, and proposes $30.9 million in budget balancers that include $23.4 million of agency reductions, $6.2 million of transfers, and $0.9 million of other adjustments. These would achieve a revised ending fund balance of $25.2 million, which is nearly $2.0 million below the target ending fund balance of $27.1 million. The executive has not identified specific budget balancers to get to fill the $2.0 million gap, but the Budget Director has stated the final plan will achieve the required ending fund balance.

Figure 5
Proposed Executive Reduction Plan
In Millions

	Executive 2003 Biennium	LFD 2003 Biennium	Difference 2003 Biennium
Projected Ending Fund Balance	**($5.290)**	**($18.631)**	**($13.341)**
Executive Proposals to Reduce Deficit			
DOR Residual Equity Transfer	0.400	0.400	
Eliminate DOT Transfer	5.790	5.790	
Agency Reductions (including Judiciary)	23.400	23.400	
Lynch Settlement	0.500	0.500	
Legislative Branch Reductions	0.350	0.350	
Potential Ending Fund Balance	**$25.150**	**$11.809**	**($13.341)**
Calculated Target Ending Fund Balance	27.280	27.134	(0.146)
Projected Budget Gap	**($2.130)**	**($15.325)**	**($13.195)**

Column 2 of Figure 5 shows the LFD projected ending fund balance before reductions of a negative $18.6 million, and when the $30.9 million in executive budget balancers are applied to that projection, the result is an ending fund balance of $11.8 million, which is $13.2 million short of the statutory minimum ending fund balance of $27.1 million. The proposed reduction plan would not, therefore, achieve the statutory requirements of 17-7-140, MCA, using the LFD projections. The primary reasons for the shortfall, as shown in Figure 3 and discussed on page 12, are slightly less optimistic revenue estimates ($4.6 million), the inclusion of an expected supplemental appropriation for wildfire suppression costs in fiscal 2003 ($7.2 million, the cost of an average fire season), and slightly lower reversion estimates ($1.3 million).

The executive spending reduction plan, when applying the executive's own revenue estimates and balance sheet assumptions, provides a viable framework for addressing the budget shortfall, and is based on reasonable estimates of the economy. LFD staff raise a number of concerns and issues with specific budget balancers included in the proposal, and some require legislative action to achieve, but the majority of budget balancers are potentially viable options. However, the plan is vulnerable in that it provides the minimum budget balancers necessary to get just below the minimum required ending fund balance. It leaves no margin for further deterioration of a volatile economic picture, assumes legislative endorsement of some items in the next session, and leaves no provision for the highly probable costs of the fiscal 2003 wildfire season as well as other significant pressures for supplemental costs in human services and corrections. In human services, potential penalties, cost shifts, and loss of federal income are a risk. If actual events result in a balance closer to the LFD projections, the vulnerability of the plan is clear.

The possibility of the need for another round of reductions if the plan is adopted as proposed is significant.

AGENCY REDUCTION PLANS

Reduction Percentage

The executive proposes to require executive agencies to reduce spending by $23,031,915 (voluntary reductions by the Judiciary add $365,746 and by the Legislative Branch add $350,000). This total equates to an average of about 3.5 percent of all general fund appropriations subject to reduction. The following figure shows each agency's reduction and percentage of the fiscal 2003 base. Please note that the reductions required of elected officials can be no more than the average reduction imposed on other executive branch agencies (3.5 percent), and that K-12 BASE aid expenditures are exempted from reductions by statute.

Figure 6
Fiscal 2003
Proposed Reductions From Base

	2003 General Fund Base	Proposed Reduction	Percent Reduction
Section A			
Governor's Office	$ 5,307,930	$ 491,329	9.0%
Commissioner of Political Practices	361,850	16,850	4.7%
State Auditor	338,768	11,792	3.5%
Department of Transportation	0	0	N/A
Department of Revenue	29,185,604	787,688	2.7%
Department of Administration	4,504,751	429,664	9.5%
Appellate Defender	187,882	6,576	3.5%
Section B			
Department of Public Health & Human Services	$ 273,103,341	$ 9,601,759	3.5%
Section C			
Department of Fish, Wildlife, & Parks	$ 281,817	$ 24,304	8.62%
Department of Environmental Quality	4,220,797	252,691	6.0%
Department of Livestock	640,681	39,180	6.1%
Department of Natural Resources & Con	15,321,970	166,557	1.1%
Department of Agriculture	2,074,167	88,600	4.3%
Department of Commerce	2,934,055	768,297	26.2%
Section D			
Board of Crime Control	$ 1,844,149	$ 184,415	10.0%
Department of Justice	24,067,726	845,239	3.5%
Department of Corrections	100,646,388	2,297,533	2.3%
Department of Labor & Industry	2,090,264	140,193	6.7%
Department of Military Affairs	4,428,826	172,939	3.9%
Section E			
Office of Public Instruction	$ 27,868,402	$ 978,430	3.5%
Board of Public Education	178,587	17,774	10.0%
Commissioner of Higher Education	147,204,016	5,152,142	3.5%
School for the Deaf & Blind	3,653,186	295,638	8.1%
Arts Council	557,670	54,793	9.8%
Library Commission	1,913,910	97,715	5.1%
Historical Society	1,909,812	109,819	5.8%
Total	$ 654,826,549	$ 23,031,917	3.5%
Judiciary*	25,013,403	365,746	1.5%
Total	$ 679,839,952	$ 23,397,663	3.4%

* Voluntary reduction that cannot be ordered by the executive. The legislative branch totals $ 350,000

The reductions were derived through a two-stage process. Agencies were asked to provide reductions plans that detailed how expenditures would be reduced by 3 and 10 percent in fiscal 2003. The Governor's Office of Budget and Program Planning (OBPP) then determined the overall percentage reduction target, and created a reduction list to meet that target from the plans submitted by the agencies. As shown in the table, uniform percentages were not applied to each agency.

Expenditure Reduction Highlights

- General fund spending reduction in executive agencies of $23.0 million
- Voluntary reductions by the Judiciary and Legislative Branch of $0.7 million
- $1.5 million of proposed spending reductions and $6.2 million in fund balance adjustments require legislative action to complete
- Corollary federal funds reduction of $13.7 million
- Potential penalties, revenue loss, and cost shifts with some proposals in the Department of Public Health and Human Services
- Direct reductions in services and/or grants of $10.6 million
  - Significant reductions in the Department of Public Health and Human Services.
- Limited impact on services with most reductions. Many agencies with minimal impact on operations.
- Reduced grants and some cost shifts to local governments total about $2.2 million

Legislative Action Required

Several of the proposed reductions are not within the legal authority of the executive, and would require legislative action to complete. These proposed reductions are shown in Figure 7. All are briefly discussed here and discussed in more detail in the individual agency narratives.

Figure 7
Reductions Requiring Legislative Action

Agency	Reduction	Amount
Transportation*	Transfer funds from HSSRA to General Fund	$5,790,814
Revenue*	Residual Equity Transfer	400,000
Commerce	Research and Commercialization Grants	465,000
Corrections	Juvenile Placement Contingency	1,000,000
Total		$7,655,814

*Not included in reduction totals. Included in fund balance.

Transportation

HB 124 requires the transfer of $5.8 million general fund to the highways state special revenue account (HSSRA) in the 2003 biennium to replace lost vehicle fee revenues. The executive proposes to make the transfer, but require that an equivalent amount of HSSRA be transferred back to the general fund. The executive does not have legal authority to move funds from one fund type to another. The legislature must authorize this transfer.

Revenue

The Department of Revenue received a supplemental appropriation in the 2001 legislative session for costs associated with the Customer Service Center. The mission of the center changed, and funds remained. The executive proposes a residual equity transfer to move the balance in the proprietary account to the general fund. Because this is a movement between fund types, the legislature must authorize the transaction.

Commerce

Through statute, the legislature requires a transfer of $4.85 million general fund each year into the research and commercialization special revenue account for grants to qualified recipients. The executive proposes to reduce the number of grants provided. The legislature must take action to return the transferred funds to the general fund from the special revenue account.

Corrections

The executive proposes to reduce a required $1.0 million set aside as a contingency fund for juvenile placement. Because statute requires that this money be set aside and that its distribution be decided by a cost containment review panel, the legislature would need to reduce the amount set-aside or change its method of distribution. (Please note that this reduction may not take place. Juvenile placements are below estimates, and the proposed reduction may be taken from that budget.)

Impacts on Federal Funds

A number of proposals will have a direct impact on the level of federal funds available to the state. It is estimated that the proposed reductions in general fund will result in the loss of approximately $13.7 million in federal funds. About $13.6 million, or 99 percent of the estimated total, is in the Department of Public Health and Human Services. Major reductions would primarily be due to reductions in Medicaid services, of which over 70 percent of benefits costs are federally funded. Appendix C provides a detailed listing.

Potential Penalties/Loss of Income

In some instances, the reductions proposed could result in penalties or loss of revenue, or cause cost shifts to other areas of the state (or agency) budget.

- Penalties and additional spending requirements in future years are a risk if reductions proposed to TANF expenditures cause the state to fall below maintenance of effort (up to $2.9 million in additional costs and penalties) and/or work participation requirements (up to $4.4 million).
- General fund revenues from Medicaid reimbursements at the Montana Developmental Center and the Eastern Montana Human Services Center totaling $11 million could be jeopardized if certification is lost as a result of some proposed reductions.
- Proposals to reduce some mental health services could cause shifts in costs, primarily to the foster care and juvenile corrections budgets, offsetting a portion of estimated savings.

These potential impacts are discussed in more detail in the narrative for the Department of Public Health and Human Services in Part 3.

How Permanent are the Proposed Reductions?

As stated elsewhere in this report, Montana faces a significant structural imbalance. Indications are also that long-term revenue growth prospects have diminished from the level experienced in prior years. Consequently, the legislature could be faced with the prospect of reducing budgets from the level that will be used to establish the 2005 biennium budget base (actual fiscal 2002 expenditures). In examining the proposed budget reductions, LFD staff also examined the long-term viability of some of the cuts. Appendix D provides a detailed listing of those reductions deemed to be of a strictly one-time nature that will not be available for legislative consideration in the 2003 session. As shown, of the $23.4 million total reduction (executive branch and Judiciary), $1.8 million will not be available (An additional $400,000 residual equity transfer included in the fund balance estimates is also a one-time reduction.)

Please note that only those reductions clearly of a one-time nature were included, such as use of a one-time fund balance, or a one-time exploitation of federal requirements due to differences in timing. In many instances, agencies and OBPP indicated that the reduction proposed could not be sustained over the long-term due to the impacts on agency operations and the provision of services. However, level of agency operations and the level of services provided is a legislative policy option that is not precluded in the future. The committee should note, however, that maintenance of some reductions not included in Appendix D could necessitate adjustments in policy or service level expectations.

CATEGORIES OF REDUCTIONS

The executive has proposed reductions that fall in a variety of categories. In addition, the impacts of those proposed reductions vary, sometimes significantly, from agency to agency. Many agencies will see minimal impacts on services or operations as envisioned by the legislature, or will attempt to mitigate the impacts through increased efficiencies and prioritization, or one-time or on-going fund shifts. In other instances, services are being reduced or delayed, and/or fewer funds will be available to provide financial support to other entities. The following sections examine some of the reductions by category, including:

1) Reductions in services.
2) Delay in new programs.
3) Reductions in grants.
4) Fund shifts/fund balance use.
5) Revenue enhancements.
6) General (unspecified) reductions.

The adjacent figure provides a summary. Please note that these categorizations are not precise, and actual impacts could vary. However, the figure and accompanying narrative serve to provide a focus for examination and discussion of impacts.

Figure 8
Reductions by Category
in Millions

Reduction Type	Reduction Amount*
Reductions in Services	$9.782
Delay of New Programs	0.472
Reductions in Grants	0.773
Fund Shifts/Fund Balance	1.054
Revenue Enhancements	1.796
General/Unspecified	1.696
Other	7.825
Total	$23.398

*Includes Judiciary voluntary reductions of $365,746

Reductions in Services

In determining categories of reduction, the first question addressed was whether the provision of state services would be impacted. Please note that this discussion takes a fairly conservative approach to determining whether services will be reduced. In many instances, narrative submitted by the agencies to OBPP indicated service reductions that were not quantified and/or specified. While some impacts to the level of service might be expected with many reductions in operations, only those where a direct and clear reduction in a currently provided service was shown are included. (For example, because fiscal 2003 is the first year the Flexibility Fund would have provided funds to schools, the proposed reduction of over $700,000 in the fund is not included in the totals, and reductions in Medicaid physicians and hospital provider rates may cause reduced access to service, but are not included.)

There is a significant difference in impact of proposed cuts on currently provided services among agencies. Most agencies showed minimal impact on services. On the other hand, a significant percentage of the reductions proposed for the Department of Public Health and Human Services will have considerable impacts on the provision of services.

Major reductions in services would occur in the following agencies:

1) The Department of Public Health and Human Services, particularly in the provision of mental health services to both children and adults. Significant reductions also occur in foster care; childcare, work readiness, and supportive services for TANF recipients; and the Children's Health Insurance Program. Proposed reductions in the Montana Developmental Center and the Eastern Montana Human Services Center could jeopardize Medicaid certification.
2) The Department of Corrections in juvenile correctional placement (although this reduction could be mitigated through a reduced need for service) and the provision of counseling and other services to inmates through a reduction in contract provisions and costs with private and other non-state operated correctional facilities.
3) The Montana University System through reductions in adjunct faculty, support staff, and equipment used in the direct provision of services to students.

Appendix E provides a detailed listing of potential direct service reductions.

Delay in New Programs

Several new programs begun or sanctioned by the legislature totaling almost $0.5 million will be delayed, including establishment of the Washington, D.C. economic development office, and provider rate increases. Appendix F summarizes these reductions.

Reductions in Grants

The state provides a variety of funds to local governments and other entities for a variety of purposes. Many of the reductions propose to reduce the level of grants available. They total $0.8 million and are summarized in Appendix G. The major reductions occur in the Research and Commercialization grant program ($465,000), and local impact grants through the coal board ($194,844).

Fund Shifts/Fund Balance Use

Several agencies propose to mitigate general fund reductions through the use of fund balances, or by shifting funding from general fund to another source of revenue. A total of $1.0 million would be mitigated in this way. Appendix H details the proposals.

Revenue Enhancements

Two options to enhance revenues were included: 1) $0.1 million in the Department of Justice; and 2) $1.7 million in the Montana University System through increased tuition, which would offset over 32 percent of the proposed reduction. The Board of Regents has neither endorsed nor approved a tuition increase as of this writing. (Please note that executive agencies are limited in range of potential action to enhance revenues to those instances within their statutory or rulemaking authority.) A detailed listing of revenue enhancements is included in Appendix I.

General/Unspecified Reductions

Many of the reductions listed in the reduction plan do not specify how the reduction will be accomplished, making an assessment of impact difficult. A minimum of $1.7 million of the proposed reductions is categorized as general or unspecified reductions. A detailed listing is included in Appendix J.

Other Impacts

Local Governments/Schools

A number of options would either increase the costs to local governments or result in fewer services. These reductions totaling about $2.2 million are detailed in Appendix K, and include a potential reduction in juvenile placement funds, and reduced investigations and inspections in the Division of Criminal Investigations. Please note that most of these reductions overlap with "Reductions in Services" and "Reductions in Grants" above.

Schools will see a reduction of over $700,000 in the $5.0 million Flexibility Fund established by the 2001 legislature. In addition, an unspecified reduction of 3.5 percent in Office of Public Instruction administration, and a further 0.5 percent in non-BASE aid or special education grants to schools were included at a total $0.3 million. Specifics were not outlined and impacts cannot be assessed.

State Employees

It was a (verbally) stated goal of the executive that no current employee of state government would be laid off as a result of the reductions. Several options involve unspecified vacancy savings, and a number of positions will be left open throughout state government. However, 6.75 currently filled positions in 4 agencies would be impacted.

LEGISLATIVE OPTIONS

The executive has projected a general fund deficit as defined in 17-7-140, and is both required and authorized by statute to implement a plan to bring the general fund back in balance with a statutorily mandated minimum reserve. The executive has submitted a plan, and is statutorily required to allow for comment and recommendations from the Legislative Finance Committee on the spending reduction plan and from the Revenue and Transportation Committee on the revenue estimates used to project a deficit.

The committee input to this process is clearly an advisory role, yet implementation of the executive plan can have a significant impact on legislative budget policy and priorities. The legislature has statutorily designated the two committees to be the spokesperson for the legislature in providing input to this significant policy and priority altering process, and it is the single opportunity for legislative influence in this process. The alternative is for the legislature to step in and take other action. The legislature needs to consider whether the policies and priorities in the executive plan are acceptable, or whether legislative action is necessary to preserve legislative policy and priorities.

This section is divided into two parts: 1) issues and considerations for the committees in evaluating the executive plan; and 2) options the legislature has to consider <u>alternatives</u> to implementing executive spending reductions. In either case, the principles suggested below for evaluating budget prioritization plans would be interchangeable regardless of which option is undertaken.

LEGISLATIVE EVALUATION OF EXECUTIVE PLAN

In evaluating the executive spending reduction proposal, the committees may find it helpful to focus on three general questions:

1) Does the plan work?
2) Are the policy choices in the executive plan consistent with the priorities of the legislature?
3) How effectively does the plan address Montana's underlying budget problem?

Does the Plan Work?

This question addresses whether the executive plan adequately assesses the economic conditions in setting the revenue projections used to establish a shortfall, provides realistic budget balancing solutions, and is effective in resolving the problem. This is a difficult question to answer since separate committees are evaluating the two sides of the budget equation, yet a coordinated response is critical.

As discussed in our analysis of the executive plan on page 14, it is the assessment of LFD staff that the plan provides a basic framework for addressing the budget shortfall. And in general, the budget balancers recommended by the executive appear workable. However, staff has raised issues with some of the proposed reductions, and has pointed out that some of the proposals will require legislative concurrence in the form of a law change in order to be implemented. Concerns were also raised with the lack of a provision for potential supplementals, including for the impending summer wildfire season. The plan is vulnerable also in that it provides no margin for error in assumptions and economic forecasts. Any unanticipated negative economic or other event would drop the ending fund balance below the required minimum. Additional budget balancers will be necessary to reach the required ending fund balance if the issues raised on revenue estimates and the viability of some planned budget balancers create a gap.

Are Policy Choices in the Executive Plan Consistent with Legislative Priorities?

The executive plan addresses the Budget Director's priorities for addressing a budget shortfall, and the question that needs to be addressed is whether the priorities and policies in the plan match up with legislative priorities and intent. This would include an assessment as to whether the plan is properly prioritized in terms of the impacts of spending reductions versus revenue solutions (however, the executive is clearly limited in the ability to use revenue solutions as part of the plan). It would also include an assessment of the specific solutions in the plan, the relative impact on government services, and how they are distributed among various categories of services. For example, the executive plan assesses 40 percent of the spending reductions to human services, 21 percent to higher education, 10 percent to corrections, and 29 percent to other government activities. The committee needs to assess if this is a reasonable distribution of reductions with the least impact on government services.

How Effectively Does the Plan Address Montana's Underlying Budget Problem?

The LFD staff has reported previously that the state faces not only a significant 2003 biennium shortfall, but that there is a longer-term structural imbalance between ongoing revenues and expenditures. Although the executive spending plan focused on addressing the current biennium budget shortfall, some of the reductions provide a permanent reduction that will help address the out-year problem. While providing a partial solution to the longer term structural deficit, the executive approach was to concentrate on the immediate shortfall as required by statute, and defer permanent actions on long-term issues until a better assessment of the economic recovery can be determined.

LEGISLATIVE ALTERNATIVES TO EXECUTIVE PLAN

As discussed previously, the legislature established a statute to both require and allow the Governor to ensure the state budget remains balanced. When a shortfall requires a reprioritization of legislative budget policy in the form of budget reductions, the legislature needs to assess whether an executive plan reasonably addresses legislative priorities/intent, or whether the magnitude and priorities of the budget balancing measures simply compels legislative intervention to fulfill the legislature's role of setting budgets and budget priorities. This is a legislative prerogative. The purpose of this section is to address options the legislature has for legislative action to address a budget crisis should it be deemed imperative.

Special Session?

Almost universally, any legislative intervention in a budget balancing process during the interim would require that the legislature call itself or be called into special session. An option in limited cases would be to address certain actions during the regular session, but the current shortfall is for fiscal 2003, and the year will be half over before the legislature convenes in regular session. An alternative, though probably quite limited, would be to negotiate agreements with the executive branch to address certain options in the next regular session.

Budget Balancing Options

Figure 9 lists different broad categories of spending, revenue, and hybrid options that could be considered to address budget prioritization, in particular a budget shortfall. Example options are provided in the second column. Options already included in the executive plan are excluded from this list.

This represents a "shopping list" of various options for committee consideration. The list is intended only as a starting point to address legislative prerogatives. It is not intended to be all encompassing, nor does it in any way represent staff recommendations. Broad categories of budget balancing options are presented, and specific options are provided only as examples for discussion purposes. Staff has not analyzed the merits/feasibility of these proposals. It should be noted that these options may also be viable in providing alternative recommendations to the executive in evaluating their plan, although legislative action would ultimately be required in nearly all cases.

Figure 9
Budget Balancing Options

Category	Examples

Program Eliminations/Modifications The focus should be on reviewing whether programs still serve a clear purpose, achieve their objectives, are cost effective, or are providing duplicative services.	o Non-statutory or Elective Programs
	o Review all General Fund Statutory Appropriations and Transfers
	    o Research and Commercialization Transfer
	    o Growth Through Agriculture

Suspension of Cost of Living/Inflations Increases	o Employee Pay Raises o Provider Rate Increases o Inflation Rate Adjustments in Budget Process o Inflation Rate on HB 124 Distributions to Local Government o BASE Aid Increases
Spending Deferrals	o Postpone Some or all Capital Projects o Postpone Some or all Economic Development Programs o Statewide Hiring Freeze o Travel, Equipment, Subscriptions, Etc.
Funding Shifts This option would include shifting funding from the general fund to other sources such as fees, federal/local governments, or the private sector.	o Reduced State Contributions for Employee Health Benefits o Maximize the Use of SWCAP/SFCAP Cost Allocations o Reduce State Support for Higher Education/Shift to Student Tuition or Other Univ. Funds o Divert Cash Flows from the Coal Tax Trust/Subtrusts o Divert Future Cash Flows from the Tobacco Trust
Program Improvements/Efficiencies/Economy This option includes seeking ways to provide the same services at lower cost, economies of scale, improved coordination, and prioritization.	o Consolidate Programs o Consolidate Economic Development Activities o Agency Restructuring/Consolidation o Consolidate School Districts o Statewide Employee Reduction In Force o Retirement Incentives/Early Retirement Legislation o Change Laws Requiring Incarceration o Debt Refinancing o Explore Privatization Efficiencies o Increase Central Management of Information Technology Projects

Figure 9 (Continued) Budget Balancing Options	
Category	Examples
Tax Expenditures This option involves examining whether tax deductions/incentives achieve their objectives/effectiveness.	o Decouple from Federal Accelerated Depreciation Incentive (Economic Stimulus Act) o Eliminate Deductions For Federal Taxes Paid on State Income Tax Return o Eliminate Inflation Rate on HB 124 Distributions to Local Government o Reduce Distributions to Local Government (HB 124) o Eliminate Previously Enacted Tax Deductions/Incentives o Repeal Mineral Royalty Payments to Local Governments (HB 226)
Increase Fees	o Charge Interest on General Fund Loans within the State Treasury o Increase Gambling Control Permit Fees o Increase Child Support Enforcement Fees
Broadening Tax Bases/Raising Tax Rates	o Adopt Gross Proceeds Tax on Health Care Providers o Increase Selected Taxes o Restructure Tax Base o Recreational Vehicles o Tourism Tax
Temporary Revenue Enhancements	o Tax Surtax
Deferring Tax Incentives/Reductions	o Defer Impacts of Recent Tax Incentive/Reduction Bills
Fund Balance Transfers	o Transfer Funds from Tobacco Trust Fund (with some restrictions, must be used for healthcare-related expenditures) o Transfer Funds From Coal Tax Trust/Subtrusts o Transfer Funds Going into Shared Account o General De-earmarking Effort/Transfer of Fund Balances
Improved Tax Compliance/Collections	o Increase Audit Activity on Non-compliant Taxpayers
Asset Sales	o Sale of Future Revenue Streams o Tobacco Settlement Funds

2005 BIENNIUM GENERAL FUND OUTLOOK

In a series of reports by the LFD since November 2001 on the general fund status, this office has reported that the state faces not only a significant 2003 biennium deficit, but an even more serious long-term structural imbalance between ongoing revenues and expenditures. The projected decline in the revenue base further exacerbates the structural imbalance problem. The underlying budget shortfall will have to be dealt with in the 2003 session. The size of the deficit is cause for much concern, although an accurate estimate of the deficit is difficult to predict, and is dependent on the strength of the state economy and the performance of state revenue collections in fiscal 2003.

The purpose of this section is to provide an insight into the severity of the budget deficit in the longer term outlook and to provide a perspective for evaluating the current budget crisis from a longer term outlook. This might include seeking options to reduce future biennium problems as part of the more immediate current biennium deficit resolution. As stated previously, a portion of the budget balancers in the executive plan have an ongoing impact and contribute to resolving the long-term problem.

DETERIORATING TAX BASE

It has become clear that the state general fund tax base is in a sharp decline, primarily with regard to individual and corporate income tax collections. The question to be answered is how soon and to what extent it will recover. The state had built a larger tax base due to net capital gains income that were reported during the extraordinary bull market years of the 1990s. Those revenues were used to expand the expenditure base, and it is now clear that the revenue bubble from capital gains income has burst, resulting in a permanent reduction in the general fund base. An accurate analysis of the impact of capital gains income declines will not be possible until late 2002.

STRUCTURAL IMBALANCE

LFD staff kept a constant tally of the potential structural imbalance in the general fund during the 2001 session, and reported in the post-session Fiscal Report that there was a structural imbalance of $57 million for the 2003 biennium budget. This meant that the on-going expenditure base exceeded the on-going revenue base by $57 million (this was largely attributable to spending down a large fund balance, a one-time source of revenue, to support expanded or new programs). That calculation was based on the revenue estimates included in HJR 2, the revenue estimating resolution. As projected by the LFD and shown in this report, the general fund revenue shortfall from HJR 2 levels is now nearly $115 million. To the extent that this shortfall is permanent, a direct increase in the structural imbalance will occur. Based on the LFD projections, the structural imbalance has grown to $194 million. This represents the reduction in revenues that are available to the next legislature to continue ongoing programs. When this imbalance is coupled with the phased-in costs of previously enacted legislation, such as the state pay plan and K-12 BASE aid increases, the shortfall mushrooms to well over $200 million. And with a projected anemic growth rate in general fund revenues, the legislature will have to consider significant budget reductions or revenue enhancements to balance the 2005 biennium budget.

IMPACT OF CURRENT REDUCTION – ONE-TIME VS. ONGOING

As reported in a previous section, the executive spending reduction plan includes some permanent expenditure reductions. Those reductions will contribute to reducing the structural imbalance in the general fund.

EXPENDITURES

Pressures on spending for government services, including double-digit growth in human services programs (resulting from increased caseloads, Medicaid cost increases, and prescription costs) will further complicate the budget deficit in the 2005 biennium. Corrections costs due to a filled-to-capacity prison system will further add to spending pressures. Demands for increased support of education will continue to be heard, and wildfire suppression costs will likely exceed average annual costs until the drought subsides. This will make the job of prioritizing/scaling back the expenditure base extremely difficult.

POTENTIAL LEGISLATIVE RESPONSE IN 2003 SESSION

As part of a long-term solution to the current budget crisis, the legislature may want to evaluate options for improved budget management and tools to address temporary downturns in the state budget picture. The following discussion addresses three options for managing future budget deficit crises.

Assessment of Appropriate General Fund Reserve

The economic outlook for the state is very tenuous at best. The more stable and robust economic times of the 1990's are in the past, and the outlook is for a much more volatile economy and state revenue picture. Attaining general fund budget stability is more than setting appropriations equal to anticipated revenues, and there is a need for a positive ending fund balance projection to serve as a safety net. The adequacy of the reserve can signify whether the state can weather the consequences of fiscal instability. To this end, the legislature needs to evaluate what amount of ending fund balance is sufficient to ensure budget stability.

For several biennia in the 1990s and before, the legislature set an ending fund reserve of $20 to $25 million, which was barely 1 percent of biennial appropriations, and left the projected reserve near the trigger amount for spending reductions right from the start. National fiscal experts such as the National Conference of State Legislatures recommend a reserve fund balance of 3 to 5 percent of total appropriations or revenues. At the current budget level, this would amount to a reserve of at least $80 million. The average state reserve projection in fiscal 2001 was over 5 percent. The 2001 Montana legislature established the largest projected reserve in history when it set the 2003 biennium projected ending fund balance at $54 million, or just over 2 percent of total appropriations. While still well below the recommended level and the all-state average, this higher level ending fund balance reserve was not enough to avoid a budget deficit, but may have contributed to avoiding a special session to resolve the problem. This points out the importance of establishing an adequate reserve that takes into consideration the volatility of the state economic picture.

Attention to Structural Imbalance

The legislature has worked diligently to pass a budget that is structurally balanced over the past several biennia, and the budget pressures of the 2001 session resulted in a budget that was structurally imbalanced by at least $57 million. This built-in imbalance, when coupled with the dramatic decline in general fund revenues, has expanded the structural imbalance to $194 million, creating a serious underlying budget deficit that will have to be addressed by the 2003 legislature. Establishment of balance between the ongoing revenues and expenditures is critical to long-term budget stability. LFD staff will continue to track the structural balance during the session to assist the legislature in achieving a healthy budget base structure.

Establishment of Rainy Day Fund

The current crisis in state general fund budgets has forced at least 45 states to take action to bring their budgets back into balance due to budget shortfalls. A majority of those states utilized the proceeds of a rainy day fund as part of the solution. A total of 46 states have rainy day funds to help get through periods of budget volatility. One of the four remaining states has a statutory requirement that the minimum ending fund balance projection must be at least 7.5 percent, which has the same effect as a rainy day fund. A rainy day fund is a prudent tool to avoid the disruption of state services and the crisis management necessary in a budget deficit situation. Rainy day funds usually have strict criteria for withdrawal of funds from the account, and have effectively served states that invested in them.

APPENDIX

Appendix A

17-7-140, MCA

Reduction in spending. (1) (a) As the chief budget officer of the state, the governor shall ensure that the expenditure of appropriations does not exceed available revenue. Except as provided in subsection (2), in the event of a projected general fund budget deficit, the governor, taking into account the criteria provided in subsection (1)(b), shall direct agencies to reduce spending in an amount that ensures that the projected ending general fund balance for the biennium will be at least 1% of all general fund appropriations during the biennium. An agency may not be required to reduce general fund spending for any program, as defined in each general appropriations act, by more than 10% during a biennium. Departments or agencies headed by elected officials or the board of regents may not be required to reduce general fund spending by a percentage greater than the percentage of general fund spending reductions required for the total of all other executive branch agencies. The legislature may exempt from a reduction an appropriation item within a program or may direct that the appropriation item may not be reduced by more than 10%.

(b) The governor shall direct agencies to manage their budgets in order to reduce general fund expenditures. Prior to directing agencies to reduce spending as provided in subsection (1)(a), the governor shall direct each agency to analyze the nature of each program that receives a general fund appropriation to determine whether the program is mandatory or permissive and to analyze the impact of the proposed reduction in spending on the purpose of the program. An agency shall submit its analysis to the office of budget and program planning and shall at the same time provide a copy of the analysis to the legislative fiscal analyst. The office of budget and program planning shall review each agency's analysis, and the budget director shall submit to the governor a copy of the office of budget and program planning's recommendations for reductions in spending. The budget director shall provide a copy of the recommendations to the legislative fiscal analyst at the time that the recommendations are submitted to the governor and shall provide the legislative fiscal analyst with any proposed changes to the recommendations. The legislative finance committee shall meet within 20 days of the date that the proposed changes to the recommendations for reductions in spending are provided to the legislative fiscal analyst. The legislative fiscal analyst shall provide a copy of the legislative fiscal analyst's review of the proposed reductions in spending to the budget director at least 5 days before the meeting of the legislative finance committee. The committee may make recommendations concerning the proposed reductions in spending. The governor shall consider each agency's analysis and the recommendations of the office of budget and program planning and the legislative finance committee in determining the agency's reduction in spending. Reductions in spending must be designed to have the least adverse impact on the provision of services determined to be most integral to the discharge of the agency's statutory responsibilities.

(2) Reductions in spending for the following may not be directed by the governor:

(a) payment of interest and principal on state debt;

(b) the legislative branch;

(c) the judicial branch;

(d) the school BASE funding program, including special education; and

(e) salaries of elected officials during their terms of office.

(3) (a) As used in this section, "projected general fund budget deficit" means an amount, certified by the budget director to the governor, by which the projected ending general fund balance for the biennium is less than 2% of the general fund appropriations for the second fiscal year of the biennium. In determining

the amount of the projected general fund budget deficit, the budget director shall take into account revenue, established levels of appropriation, anticipated supplemental appropriations for school equalization aid, and anticipated reversions.

(b) If the budget director determines that an amount of actual or projected receipts will result in an amount less than the amount projected to be received in the revenue estimate established pursuant to 5-18-107, the budget director shall notify the revenue and transportation interim committee of the estimated amount. Within 20 days of notification, the revenue and transportation interim committee shall provide the budget director with any recommendations concerning the amount. The budget director shall consider any recommendations of the revenue and transportation interim committee prior to certifying a projected general fund budget deficit to the governor.

Appendix B

2003 Biennium General Fund Balance
Based on Action By the 57th Legislature and LFD Revisions
In Millions

	Actual Fiscal 2000	Actual Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Actual 2001 Biennium	Estimated 2003 Biennium
Beginning Fund Balance	**$109.673**	**$176.000**	**$172.897**	**$99.732**	**$109.673**	**$172.897**
Revenues						
Current Law Revenue	1,163.641	1,269.472	1,279.474	1,283.489	2,433.113	2,562.963
Legislation Impacts						
Residual Transfers	0.725	0.501			1.226	
Total Funds Available	**$1,274.039**	**$1,445.973**	**$1,452.371**	**$1,383.221**	**$2,544.012**	**$2,735.860**
Disbursements						
General Appropriations	1,046.100	1,140.620	1,120.810	1,153.313	2,186.720	2,274.123
Statutory Appropriations	39.950	76.219	145.729	130.061	116.169	275.790
Local Assistance Appropriations	13.813	56.772			70.585	
Miscellaneous Appropriations	3.890	7.408	71.748	89.162	11.298	160.910
Language Appropriations						
Non-Budgeted Transfers	2.350	3.227	21.636	15.886	5.577	37.522
Continuing Appropriations			2.611			2.611
Supplemental Appropriations				13.100		13.100
FEMA Wildfire Costs						
Feed Bill Appropriations				7.028		7.028
Anticipated Reversions	(0.505)	(15.321)	(7.571)	(6.698)	(15.826)	(14.269)
Total Disbursements	**$1,105.598**	**$1,268.925**	**$1,354.963**	**$1,401.852**	**$2,374.523**	**$2,756.815**
Adjustments	7.559	(4.151)	2.324		3.408	2.324
Reserved Ending Fund Balance	**$176.000**	**$172.897**	**$99.732**	**($18.631)**	**$172.897**	**($18.631)**
Unreserved Ending Fund Balance	**$176.000**	**$172.897**	**$99.732**	**($18.631)**	**$172.897**	**($18.631)**

Appendix C

Federal Funds Reduced as a Result of General Fund Reductions

Agency Name	Program	Description	General Fund		Federal Funds
DPHHS	Child and Family Services	Reduce Foster Care Services	$639,417		$373,813
DPHHS	Human and Community Services	Reduce Work Readiness and Supportive Services Contracted Services	973,117	*	
DPHHS	Human and Community Services	Reduce Childcare Matching Funds - Childcare Services	302,021		819,900
DPHHS	Disability Services	Reduce Services/Operatons Montana Developmental Center	377,217	**	
DPHHS	Disability Services	Reduce Services/Operatons Eastern Montana Human Services Center (Eastmont)	254,107	**	
DPHHS	Disability Services	Reduce Vocational Rehabilitation - Section 110 Services	274,940		729,205
DPHHS	Child Support Enforcement Division	Reduce Operations	22,500		43,676
DPHHS	Child and Family Services	Operatons Reductions - Increase Vacant Positions - Child Protective Services Workers and Administrative Staff	170,272		139,313
DPHHS	Operations and Technology Division	Reduce Level of Effort CAPS Facilities Management Contract	102,041		94,192
DPHHS	Operations and Technology Division	Reduce Level of Effort TEAMS Facilities Management Contract	146,476		146,476
DPHHS	Operations and Technology Division	Reduce ISD Mainframe Processing SEARCHS	33,113		64,278
DPHHS	Operations and Technology Division	Reduce ISD Mainframe Processing CAPS	24,505		22,620
DPHHS	Operations and Technology Division	Reduce ISD Network Subscriptions by 50	21,780		21,780
DPHHS	Operations and Technology Division	Reduce Level of Effort MMIS Facilties Management Contract	19,573		58,719
DPHHS	Operations and Technology Division	Reduce ISD Mainframe Processing TEAMS	116,676		116,675
DPHHS	Child and Family Services	Eliminate Computer Hardware	61,752		48,519
DPHHS	Operations and Technology Division	Personal Services Reduction	17,139		20,947
DPHHS	Child and Family Services	Eliminate Community Collaboration Specialist	25,000		20,455
DPHHS	Operations and Technology Division	Reduce IT Consulting and Professional Services	32,536		38,194
DPHHS	Senior and Long Term Care	Delay direct care worker provider rate increase	162,248		437,117
DPHHS	Senior and Long Term Care	Delay expansion of community waiver services for elderly and disabled	97,191		261,845
DPHHS	Addictive/Mental Disorders	Move AMDD bulletin to website	6,786		6,786
DPHHS	Addictive/Mental Disorders	Eliminate advisory council facilitation contract	13,710		13,710
DPHHS	Addictive/Mental Disorders	Eliminate Medicaid day treatment for children	258,736		697,069
DPHHS	Addictive/Mental Disorders	Limit Medicaid outpatient mental health services to children with a serious emotional disturbance and adults with a serious mental illness	686,197		1,848,704
DPHHS	Addictive/Mental Disorders	Eliminate expanded mental health services for non-Medicaid children	250,247		1,080,320
DPHHS	Health Policy and Services	Reduce number by 336 the number of children covered by the Children's Health Insurance Program (CHIP)	89,222		356,888
DPHHS	Director's Office	Eliminate department employee survey	2,600		4,400
DPHHS	Director's Office	Advisory council meeting reduction	1,200		1,500
DPHHS	Senior and Long Term Care	Use lien and estate funds for general fund match	161,880		438,120
DPHHS	Addictive/Mental Disorders	Hold central office positions open	84,784		67,854
DPHHS	Addictive/Mental Disorders	Hold regional planning positions open	209,260		139,507
DPHHS	Health Policy and Services	Withhold fiscal 2003 provider rate increase	588,768		1,586,215
DPHHS	Health Policy and Services	Extend across the board provider payment reduction	775,107		2,088,236
DPHHS	Senior and Long Term Care	Reduce Medicaid long-term benefits	673,931		1,815,655
Military Affairs	Disaster & Emergency Services Division	General operating expenditure cutbacks	16,256		16,256
Military Affairs	Army National Guard Program	Reduce programmed maintenance	78,663		120,000
DEQ	Plan., Prevention, & Assist.	Reduce match amount for the federal biomass energy program	20,000	***	
DEQ	Plan., Prevention, & Assist.	Eliminate match amount for the federal biomass energy program	25,458	***	
Total			$7,816,426		$13,738,944

* Montana will be penalized with loss of federal funds if maintenance of effort or work participation requirements are not met.
** Federal medicaid funds will be lost if certification is not maintained.
***Reducing or eliminating the general fund match amount would reduce or eliminate the federal grant unless another source of match or in-kind services are provided

Appendix D

One-Time-Only (OTO) Reductions

Agency Name	Program	Description	Amount
Justice	Legal Services Division	Portion of fund balance transferred to general fund	$54,000
School for the Deaf and Blind	All	Utilize fund balance in school trust account	165,000
Arts Council	Promotion of the Arts	Replace general fund with state special revenue balance from the cultural & aesthetics acct	25,000
Revenue	CSC (06) & CVR (08)	Funding Switch	90,000
Revenue*	Customer Service Center (06)	Residual Equity Transfer	400,000
Revenue	Director's Office (01) & CVR (08)	Participation in External Organizations	114,973
Administration	Accntg & Mgmt Support (03)	Funding Switch for Consumer Protection	266,117
Agriculture	Agriculture Development Division	Replace general fund with federal special revenue - no expenditure reductions	25,000
Corrections	Director's Office	Utilize excess supervision fee balance for training unit	150,000
DPHHS	Human and Community Services	Reduce Work Readiness and Supportive Services Contracts	973,117
Total			$2,263,207

*Not included in reduction total of $23.4 million. Included in fund balance estimate.

Appendix E

Reduction Type - Reduction in Services

Agency Name	Program	Description	Amount
Justice	Highway Patrol	Change in process of determining incarceration in county correction facilities	$32,546
Justice	Motor Vehicle	Reduce service of titling and lien filing of boats, snowmobiles, ATV's	64,168
Justice	Motor Vehicle	Consolidate Billings West Driver's License station with Billings Central	38,912
Justice	Motor Vehicle	Reduce non-pay/appear drive control actions	76,408
Justice	Criminal Investigation	Reduce personal services resulting in fewer investigations, inspections, training	200,197
Justice	Motor Vehicle	Staff reductions increasing backlogs of titling and lien filings	21,000
Justice	Legal Services	Reduce child protection services to county attorneys and DPHHS social workers	40,000
Justice	Motor Vehicle	Personal services reduction in driver's license stations.	20,000
University System	Education Units	Reduce support staff and instructional operating costs and equipment purchases	568,565
University System	Community Colleges	Reduce grant writing, advising, computer equipment purchase, adjunct faculty, and full time faculty	151,003
University System	Higher Ed Agencies	Reduce research and public outreach services	155,661
School/Deaf & Blind	Education	Reduce travel to school districts to provide technical support, publications,& student work-study opportunities	10,301
State Library	State Library Ops	Info and research, library backup, interlibrary loan	87,417
DFWP	Con. Ed.	Reduce printed material for the Off-Highway Vehicle Safety Education	256
DFWP	Parks	Grounds maintenance reduction -- reduce fertilization, mowing, and irrigation on capitol complex	2,500
DFWP	Parks	Reduce weed control activity in each region	6,000
DFWP	Parks	Reduce Lewis and Clark Preparation	2,000
DFWP	Parks	Reduce state parks operations and maintenance activities	7,548
DFWP	Parks	Further reduce state parks operations and maintenance activities in Lewis & Clark and Bannack	6,000
DEQ	Permitting & Compliance	Reduce MACO sponsored solid waste training for licensed facilities	6,629
DEQ	Permitting & Compliance	Eliminate .50 FTE Environmental Engineer in the Hard Rock Permitting program	4,332
DEQ	Plan., Prevention, & Assist.	Reduce match amount for the federal biomass energy program	20,000
DEQ	Plan., Prevention, & Assist.	Reduce match amount for the federal biomass energy program	25,458
DNRC	Con.& Resource Dev.	Reductions in the Grass Comm., con. districts, irrigation, and North Cent. Reg. Water Authority	51,000
DNRC	Forestry	Reduce travel of newly-hired position conducting state lands inventory	1,478
Revenue	CSC (06)	Curtail mailing tax preparation packages to taxpreparers	15,000
Revenue	CVR (08)	Temporarily reduce external regional business clinics	3,485
Revenue	CSC (06)	Mail Montana Quarterly forms annually instead of quarterly	35,000
Corrections	Juvenile Corrections	Reduction of contingency fund for juvenile placement could result in reduced or lesser services.	1,000,000
Corrections	Secure Facilities	Reduce the number of offenders receiving vocational and adult basic education at MWP	73,376
Corrections	Secure Facilities	Reduce contract bed rate for offenders resulting in less programming	874,818
Commerce	Business Resources	Reduce expenditures within Trade and International Relations - Made in MT campaign	88,453
Labor and Industry	Centralized Services	Reduce Hearings Officer and Attorney time spent on Human Rights Bureau/Commission issues	4,950
Labor and Industry	Workforce Services	Reduce services in Job Registry Program	21,143
Labor and Industry	Workforce Services	Reduce services in Displaced Homemaker Program	18,423
Military Affairs	Scholarship Program	Reduce award of Incentive Scholarships	10,173
Military Affairs	Veterans Affairs Services	Reduce Service Technician hours at two local Veterans' Services Offices	21,515
DPHHS	Disability Services	Reduce donated dental services under DDPAC	2,500
DPHHS	Child and Family Services	Reduce Domestic Violence Services	75,000
DPHHS	Child and Family Services	Reduce Big Brothers Big Sisters	25,000
DPHHS	Disability Services	Reduce Vocational Rehabilitation - Visual Medical, Extended Employment Services	117,832
DPHHS	Child and Family Services	Reduce Foster Care Services	639,417
DPHHS	Human & Community Srvcs	Reduce Work Readiness and Supportive Services Contracted Services	973,117
DPHHS	Human & Community Srvcs	Reduce Childcare Matching Funds - Childcare Services	302,021
DPHHS	Disability Services	Reduce Services/Operations Montana Developmental Center	377,217
DPHHS	Disability Services	Reduce Services/Operations Eastern Montana Human Services Center (Eastmont)	254,107
DPHHS	Disability Services	Reduce Vocational Rehabilitation - Section 110 Services	274,940
DPHHS	Child Support Enforcement	Reduce Operations	22,500
DPHHS	Child and Family Services	Operations Reductions - Increase Vacant Positions - Child Protective Services Workers and Administrative Staff	170,272
DPHHS	Addictive/Mental Disorders	Revert appropriation to develop services to prevent out-of-home placement of children	480,000
DPHHS	Addictive/Mental Disorders	Eliminate Medicaid day treatment for children	258,736
DPHHS	Addictive/Mental Disorders	Limit Medicaid outpatient mental health services to children with a serious emotional disturbance and adults with a serious mental illness	686,197
DPHHS	Addictive/Mental Disorders	Eliminate expanded mental health services for non-Medicaid children	250,247
DPHHS	Addictive/Mental Disorders	Eliminate contracts for non-Medicaid adult drop in centers, increase pharmacy co-payment, contract eligibility determination	728,291
DPHHS	Health Policy and Services	Reduce number by 336 the number of children covered by the Children's Health Insurance Program (CHIP)	89,222
DPHHS	Health Policy and Services	Eliminate funds used for uninsured children	100,000
DPHHS	Director's Office	Reduce tobacco control appropriation	115,538
DPHHS	Quality Assurance	Reduce health facility and day care licensure and x-ray machine inspections	73,862
Total			$9,781,731

Appendix F

Reduction Type - Delay of New Programs

Agency Name	Program	Description	Amount
Governor's Office	Executive Office	Delay establishment of Washington D.C. office	$127,500
DPHHS	Senior & Long Term Care	Delay direct care worker provider rate increase	162,248
DPHHS	Senior & Long Term Care	Delay aging services provider rate increases	43,361
DPHHS	Senior & Long Term Care	Delay expansion of community waiver services for elderly and disabled	97,191
DPHHS	Senior & Long Term Care	Delay hiring 2.0 FTE adult protective services workers	41,714
Total			$472,014

Appendix G

Reduced Grants to Local Entities and Others

Agency Name	Program	Description	Amount
Judiciary	Administration	CASA Program grant reduction	$17,500
Agriculture	Agriculture Development Division	Reduce Growth Through Agriculture grants	57,600
Agriculture	Agricultural Sciences Division	Reduce Noxious Weed grants	6,000
Commerce	Community Development Division	Reduce award of Coal Board Local Impact grants	194,844
Commerce	Board of Research and Commercialization Grants	Reduce award of Board of Research and Commercialization grants	485,000
Arts Council	Promotion of the Arts	Reduce arts education and professional development grants	29,793
Total			$773,237

Appendix H

Reduction Type - Fund Shifts/Fund Balance

Agency Name	Program	Description	Amount
Justice	Legal Services Division	Transfer from the antitrust state special account to the general fund	$54,000
School for Deaf and Blind	Entire Agency	Replace general fund with school trust fund balance.	165,000
Arts Council	Promotion of the Arts	Replace general fund with state special revenue balance from the cultural & aesthetics acct	25,000
Revenue	CSC (06) & CVR (08)	Funding Switch - Fund hail insurance and per capita livestock fee collection costs with PVIF	90,000
Administration	Accounting & Mgmt Support	Funding Switch for Consumer Protection - general fund to state special revenue	266,117
Administration	General Services Program	Reduce general fund contribution to the maintenance of Capitol Complex general areas	27,135
Agriculture	Agriculture Development Division	Replace general fund with federal special revenue - no expenditure reductions	25,000
Corrections	Admin. & Support Services	Transfer excess supervision fee cash balance to general fund	150,000
Labor and Industry	Employment Relations Division	Use increased federal funds to offset general fund in Human Rights Program	17,404
Labor and Industry	Employment Relations Division	Use federal and state special funds to offset general fund in Indoor Air Quality Program	34,033
Total			$853,689

Appendix I

Reduction Type - Revenue Enhancements

Agency Name	Program	Description	Amount
Justice	Justice Inf. Serv. Div.	Increased the fee for name-based background non-criminal background checks from $5 to $8	$120,000
University System	MUS	Increased tuition*	1,675,626
Total			$1,795,626

*Has not been endorsed or aproved by the Board of Regents.

Appendix J

Reduction Type - General/Unspecified

Agency Name	Program	Description	Amount
Appellate Defender	Appellate Defender	General operating expenditure cutbacks	$6,576
OPI	Administration	Personal services and operating expenses	133,625
OPI	Agency	Unidentified reductions	139,775
University System	University System	Unspecified or Across the Board Reductions	803,011
School/Deaf & Blind	Education	Reduce operating budget for Education Program	66,535
Historical Society	Administration	Personal services and operating expenses	$56,936
Historical Society	Library	Personal services and operating expenses	34,167
Historical Society	Museum	Personal services and operating expenses	14,077
Historical Society	Publications	General operating expenditure cutbacks	2,146
Historical Society	Historical Sites Preservation	General operating expenditure cutbacks	2,493
DEQ	Plan., Prevention, & Assist.	General operating expenditure cutbacks	10,900
DEQ	Permitting and Compliance	General operating expenditure cutbacks	50,000
DEQ	Plan., Prevention, & Assist.	General operating expenditure cutbacks	29,121
DEQ	Permitting and Compliance	General operating expenditure cutbacks	27,233
DEQ	Plan., Prevention, & Assist.	General operating expenditure cutbacks	12,000
DEQ	Enforcement	General operating expenditure cutbacks	14,020
DEQ	Enforcement	General operating expenditure cutbacks	32,710
Livestock	Centralized Services	General operating expenditure cutbacks	19,180
Livestock	Diagnostic laboratory	General operating expenditure cutbacks	20,000
DNRC	Con.& Resource Development	General operating expenditure cutbacks	38,713
DNRC	Reserve Water Right Compact Comm.	General operating expenditure cutbacks	23,146
Labor & Industry	Mt Community Services Div.	General operating expenditure cutbacks	740
Military Affairs	Disaster & Emerg. Services Div.	General operating expenditure cutbacks	16,256
Military Affairs	Centralized Services Div.	General operating expenditure cutbacks	11,529
Military Affairs	Youth Challenge Program	General operating expenditure cutbacks	34,803
DPHHS	Quality Assurance	Increase vacancy savings, maximize federal funds, limit operational costs	66,695
DPHHS	Senior and Long Term Care	Reduce travel or contracted services, maximize use of federal funds	30,000
Total			$1,696,387

Appendix K

Reductions Resulting in Impacts to Local Governments

Agency Name	Program	Description	Amount
OPI	Distribution to Schools	Reduce Flexibility Fund	$705,030
Justice	Div. of Criminal Invest.	Reduce personal services resulting in fewer investigation, inspections, training	200,197
Justice	Highway Patrol	Change in process of determining incarceration in county correction facilities	$32,546
Justice	Legal Services Div.	Reduce child protection services to county attorneys and DPHHS social workers	40,000
State Library	State Library Operations	Info and research, library backup, interlibrary loan	87,417
DFWP	Parks	Reduce weed control activity in each region	6,000
DEQ	Permitting & Compliance	Reduce MACO sponsored solid waste training for licensed facilities	6,629
DNRC	Con.& Resource Development	Reductions in the Grass Comm., con. districts, irrigation, and North Cent. Reg. Water Authority	51,000
Agriculture	Agricultural Sciences Div.	Reduce Noxious Weed grants	6,000
Agriculture	Agriculture Development Div.	Reduce Growth Through Agriculture grants	57,600
Corrections	Juvenile Corrections	Reduction of contingency fund for juvenile placement could result in reduced or lesser services	1,000,000
Military Affairs	Disaster & Emerg. Serv. Div.	General operating expenditure cutbacks	16,256
Total			$2,208,675

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